Los Angeles County Office of Education

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January 29, 2019

Ms. Monica Garcia, Board President
Los Angeles Unified School District
333 South Beaudry Avenue, 24th Floor
Los Angeles, CA 90017-5141

Dear Ms. Garcia:

Under Assembly Bill AB 1200 (Chapter 1213/Statutes 1992), AB 2756 (Chapter 52/Statutes 2004), and Government Code (GC) Section 3547.5, I received the Los Angeles Unified School District's (District) "Public Disclosure of Proposed Collective Bargaining Agreement" (Disclosure) regarding a Tentative Agreement (Agreement) with the United Teachers Los Angeles (UTLA) on January 28, 2019. The Agreement is for the period beginning July 1, 2017, and ending June 30, 2022, and is scheduled for Governing Board action on January 29, 2019. We have reviewed the District's financial analysis and assumptions as presented in the Disclosure, and offer our comments and concerns.

COLLECTIVE BARGAINING DISCLOSURE

The Agreement provides for a 3.0 percent on-schedule wage increase for 2017-18, retroactive to July 1, 2017, and a 3.0 percent on-schedule wage increase for 2018-19, retroactive to July 1, 2018. The Agreement also provides for staffing to reduce class sizes, and additional support personnel at school sites. This completes and closes out all negotiations with UTLA for the 2017-18 and 2018-19 school years, except as provided in the parties' collective bargaining agreement.

The Disclosure projects a total ongoing increase in employee compensation costs of $266 million in 2018-19, $255 million in 2019-20, and $319 million in 2020-21, resulting from the negotiated Agreement. The District's financial analysis, as presented in the Disclosure, projects total available of reserves of 11.04 percent for 2018-19, 5.38 percent for 2019-20, and 0.96 percent for 2020-21. While the projected reserves for 2018-19 and 2019-20 meet the 1 percent minimum requirement level as set by the State Criteria and Standards, the projected reserve for 2020-21 is below the minimum requirement.

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The District based its multi-year projection in part on assumptions in the Governor's 2019-20 Proposed Budget, which include:

- Increase in the projected cost of living adjustment (COLA)
- Decrease in the CalSTRS rate

We caution the District about relying on this projected revenue since the Governor's 2019-20 Budget is not yet finalized. The District must ensure it monitors the State's Adopted Budget and its impact on this Disclosure's financial analysis, and make immediate adjustments for any reductions in proposed revenues.

The District's multi-year projection also includes the following major assumptions:

Fiscal Year 2018-19:

- Revenue estimates based on the District's First Interim Report
- Additional strike related costs of $13.5 million
- Salary savings of $70 million
- Release of assigned balances set aside for the salary increase of 3 percent in 2017-18 and 3 percent in 2018-19
- Policy change regarding mid-year school site allocations

The District must take action to release assigned balances set aside and approve policy changes, as appropriate, to utilize these funds for this Disclosure.

Fiscal year 2019-20 and 2020-21:

- One-time redirection of unallocated Targeted Student Population (TSP) funds (also known as supplemental and concentration funds)
- Estimated decrease of 13,985 in funded ADA, which resulted in an estimated loss of revenue of $151.9 million in 2019-20
- Decrease of $20.7 million in Health and Welfare Contribution due to higher anticipated reimbursement from the Employee Group Waiver Insurance Plan

Because supplemental and concentration dollars are being used to partially fund the Agreement, the District will need to review its Local Control Accountability Plan and determine if a revision is necessary.

This Disclosure reflects the District's continued practice of using one-time funding to cover ongoing expenditures. As we have previously noted, using one-time funding sources, such as reserves, to cover ongoing salary expenditures, is a key indicator of risk for potential insolvency.

DEFICIT SPENDING AND RESERVES

The District's Disclosure is projecting structural operating deficits in its Unrestricted General Fund of $132 million for 2018-19, $548 million for 2019-20, and $395 million for 2020-21. Due to deficit spending, the District's reserve is projected to decrease and is below the minimum required level in 2020-21. The District is also projecting an operating deficit of over $500 million in 2021-22, which has yet to be addressed.

Pursuant to Education Code Section 42142, within 45 days of a collective bargaining settlement, the District Superintendent must send to the County Superintendent any revisions to the District's current budget to fulfill the agreement. AB 2756 and GC Section 3547.5(c) authorize the County Superintendent to take specific action if a school district does not process these revisions.

CONCLUSION

The Disclosure relies heavily on one-time funding sources and projected revenues. Additionally, the District's financial analysis indicates it is still unable to meet its reserve requirement in 2020-21 indicating that the Agreement is not sustainable on an ongoing basis. We have communicated our concerns in prior letters regarding the District's growing structural deficit, and have yet to see the Governing Board implement significant expenditure reductions and/or revenue enhancements that would stabilize the District's financial position. This Disclosure continues the District's practice of allowing the ending fund balance to erode, and continues to move the District toward fiscal insolvency.

Should the Governing Board approve the Agreement as presented, the Board must take immediate action to address the long-term impact of the settlement on the District's escalating deficit spending in 2019-20 and beyond. **Therefore, the Governing Board will be required to develop and submit a detailed Fiscal Stabilization Plan (FSP) that identifies the specific expenditure reductions and/or revenue enhancements necessary to fund the ongoing costs of the salary increase. The FSP must also restore reserves to the minimum level in all fiscal years. This plan must be Board-approved, and incorporated into the District's 2018-19 Second Interim Report, which is due to our office by March 18, 2019. The plan should not include any unallocated or contingent expenditure reductions or revenues.** Should the Governing Board fail to submit a FSP that addresses the concerns identified in this letter, I am prepared to take further actions that may include identifying the District as a Lack of Going Concern and assigning a Fiscal Advisor with stay and rescind authority over Governing Board actions.

The Governing Board is ultimately responsible for ensuring that all local decisions support and promote the fiscal health of the District. The Los Angeles County Office of Education (LACOE) will continue to work closely with the District Board of Education, Administration, and staff to resolve your fiscal challenges. Our office encourages the Governing Board to continue to engage and work closely with the Fiscal Expert team assigned to the District and use their expertise as a resource.

If our office may be of further assistance, contact Dr. Candi Clark at (562) 922-6124 or Keith Crafton at (562) 922-6131.

Sincerely,

Debra Duardo

Debra Duardo, M.S.W., Ed.D
Superintendent

CC/KDC/TSS

cc: Austin Beutner, Superintendent, Los Angeles Unified School District (LAUSD)
Scott S. Price, Ph.D, Chief Financial Officer, LAUSD
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